



Framing Presentations on
Tax-Exempt Conduit Bond Market Trends:

Credit Enhancement Trends

*California Debt and Investment Advisory Commission
California Private Activity Bonds Workshop*

*Federal Reserve Building
Los Angeles, California 90015
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Wells Fargo Securities
 - Public Finance Investment Banker
 - Published “California’s Credit Crisis: Financing Credit Facilities After the Financial Storm” in *Debt Line* in December 2009*
 - Much has changed, even since 2009

Outline of Topics

- How has the credit enhancement market changed and what does it look like today?
- How is it continuing to change?
- What new options are available?
- What does the future hold?

Impact of Credit Ratings - After the Crisis

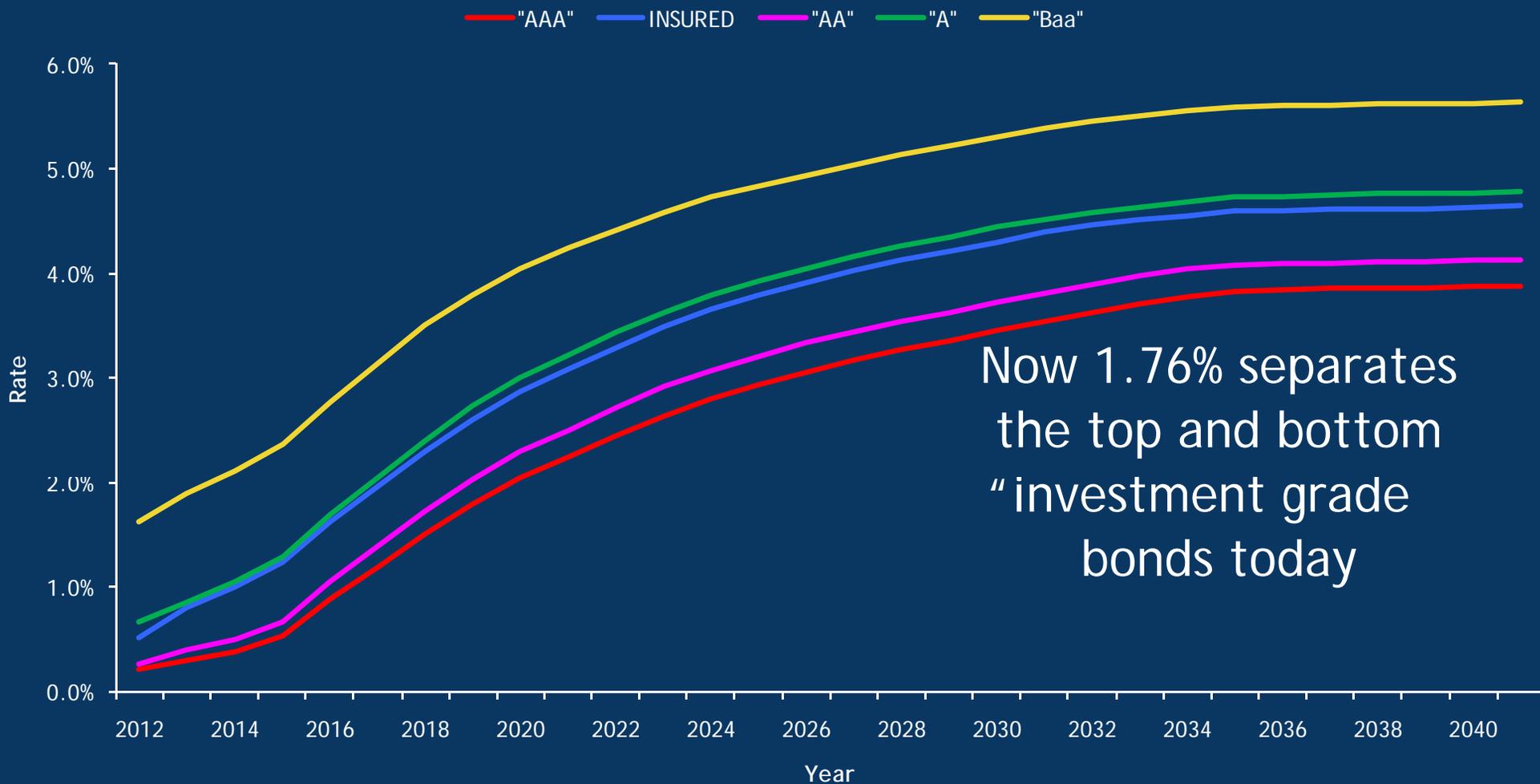
Interest Rates by Credit Ratings Today



Source: Municipal Market Data. As of August 25, 2011.

Impact of Credit Ratings - Today's Yields

Interest Rates by Credit Ratings Today



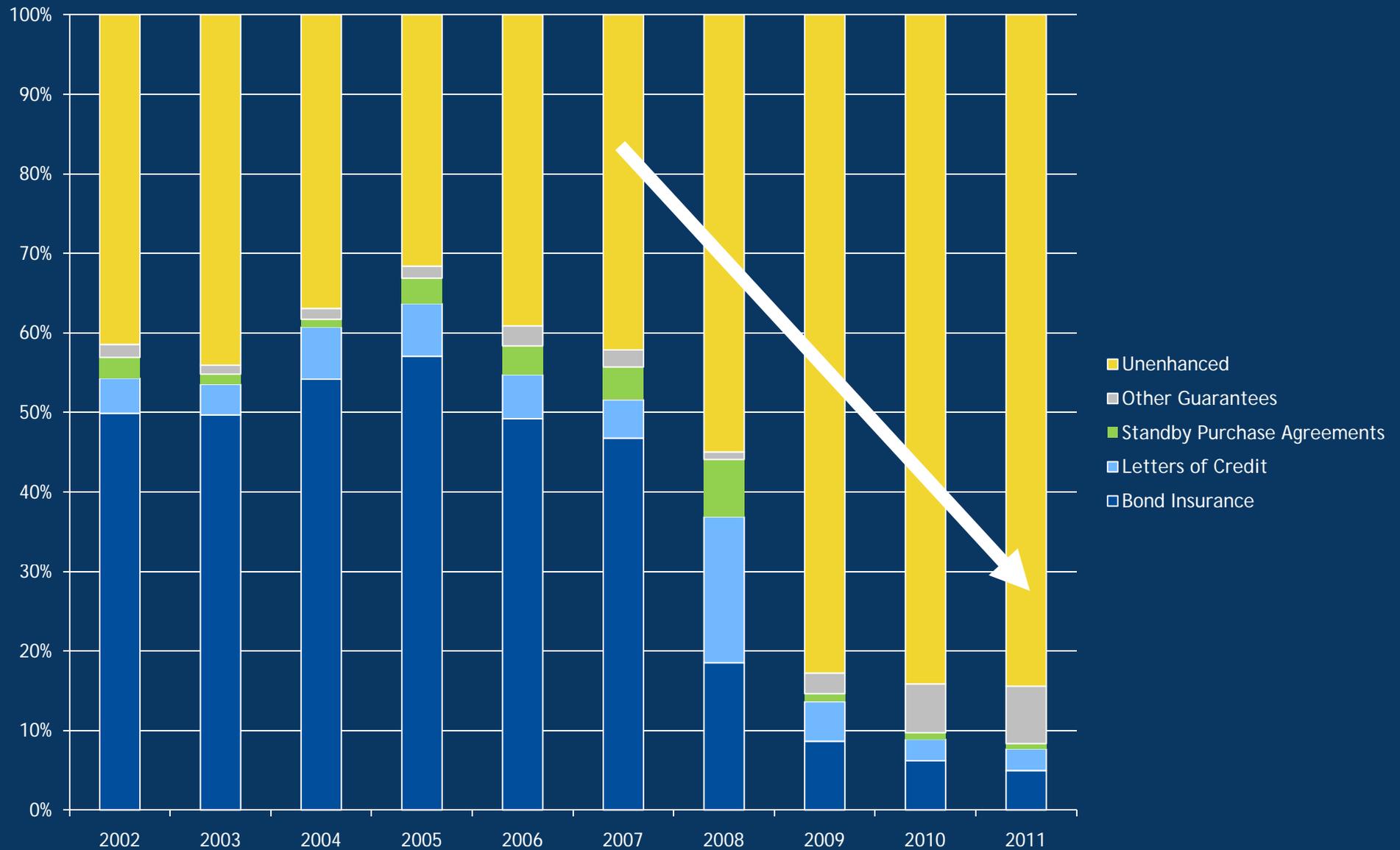
Source: Municipal Market Data. As of August 25, 2011

Bond Insurers Lose Their Triple-A Ratings

<u>Insurer</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
	Aa1 Stable	AA+ Negative	Not Rated
	Aa3 Negative Outlook	AA+ Negative Outlook	Withdrawn
	Aa3 Negative Outlook	AA+ Negative Outlook	Withdrawn
	Withdrawn	Withdrawn	Withdrawn
	Baa1 Outlook Developing	BBB Outlook Developing	Withdrawn
	Withdrawn	Withdrawn	Withdrawn
	Withdrawn	Withdrawn	Withdrawn
	Withdrawn	Withdrawn	Withdrawn
	Ca Outlook Developing	Withdrawn	Withdrawn

Source: Bloomberg. As of August 25, 2011

The Rise and Fall of Municipal Bond Insurance



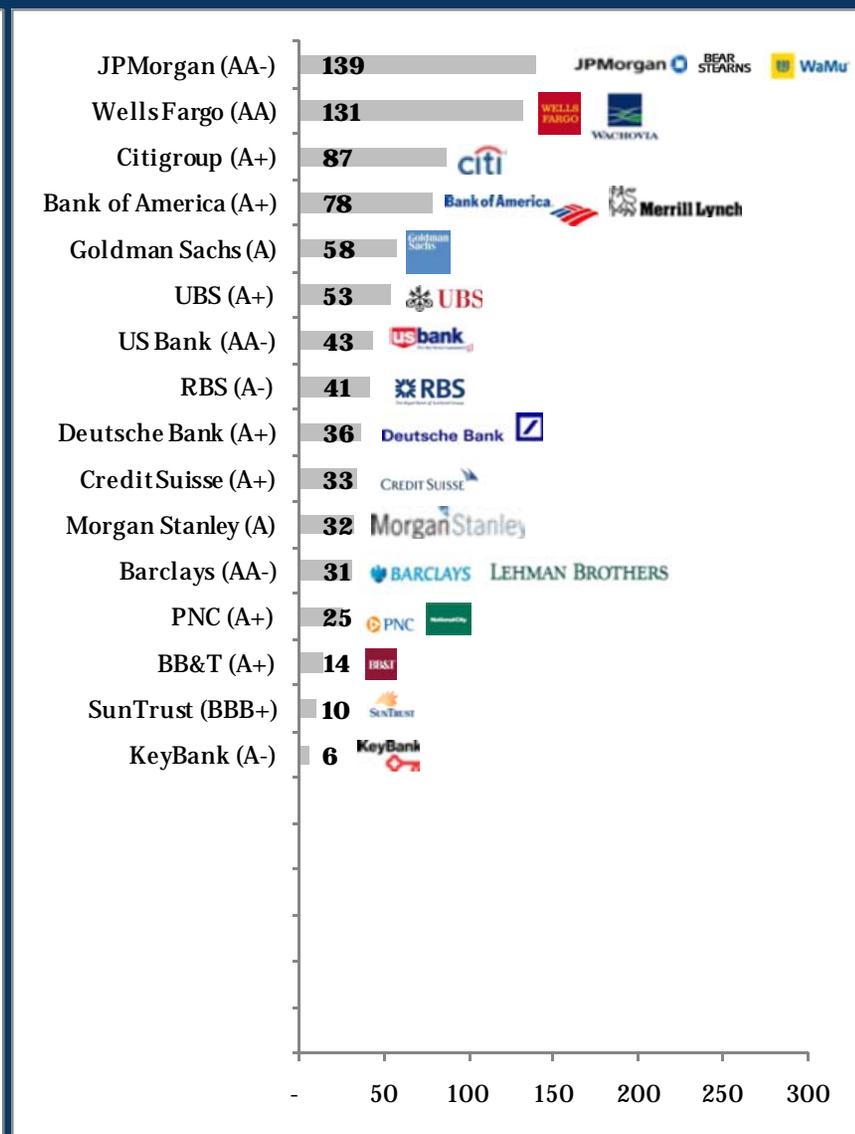
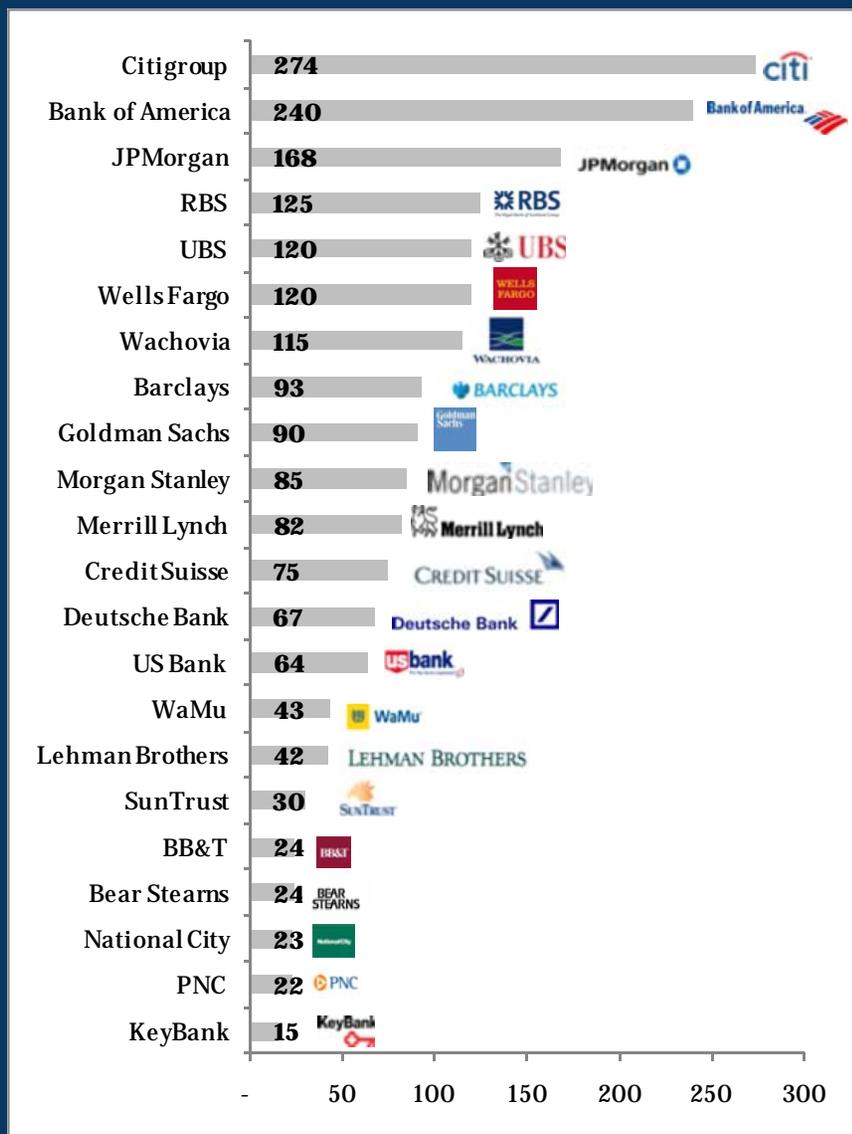
Source: Bond Buyer. As of August 25, 2011

Changes in the Bank Industry

Total Market Capitalization

January 1, 2007

August 25, 2011



Changes in the Letter of Credit Industry

Top 20 LOC Banks in 1991				Top 20 LOC Banks in 2001				Top 20 LOC Banks in 2011 YTD ⁽¹⁾						
Rank	Bank	Principal Amount	Mkt. Share	National Flag	Rank	Bank	Principal Amount	Mkt. Share	National Flag	Rank	Bank	Principal Amount	Mkt. Share	National Flag
1	Mitsubishi Bank	738.2	7.8		1	Bank of America NT&SA	1268.5	9.8		1	JPM Chase	1019.1	23.7	
2	Sumitomo Bank	701.7	7.4		2	SunTrust Bank	906.3	7.0		2	Wells Fargo Bank	787.2	18.3	
3	Societe Generale	576.2	6.1		3	US Bank National Association	525.9	4.1		3	Bank of America NT&SA	500.8	11.6	
4	Industrial Bk of Japan Tr Co.	574.9	6.0		4	Allied Irish Banks	491.6	3.8		4	AGM formerly FSA Inc	396.1	9.2	
5	Morgan Guaranty	542.6	5.7		5	Bank One, NA	486.1	3.8		5	US Bank National Association	298.6	6.9	
6	Swiss Bank Corporation	516.4	5.4		6	Wachovia Bank	465.2	3.6		6	Citibank NA	295.0	6.9	
7	AMBAC	493.2	5.2		7	Landesbank Hessen-Thuringen	436.0	3.4		7	Northern Trust Company	228.4	5.3	
8	National Westminster Bank PLC	427.0	4.5		8	Bayerische Hypo Vereinsbank AG	413.0	3.2		8	Royal Bank of Canada	200.0	4.7	
9	FGIC	423.0	4.5		9	The Chase Manhattan Bank, N.A.	379.0	2.9		9*	National Australia Bank	112.5	2.6	
10	Citibank NA	320.4	3.4		10	Fleet Bank NA	337.0	2.6		9*	Australia & New Zealand Bk Gp	112.5	2.6	
11	Student Loan Marketing Asoc	313.3	3.3		11	Firststar Trust Company	320.9	2.5		11	PNC Bank NA	107.2	2.5	
12	Union Bank of Switzerland	305.2	3.2		12	The Bank of New York Mellon	310.9	2.4		12	Morgan Stanley Bank	100.0	2.3	
13	Sumitomo Trust & Banking	299.6	3.2		13	Bayerische Landesbank	296.4	2.3		13	Union Bank NA	77.6	1.8	
14	The Fuji Bank, Limited	287.4	3.0		14	First Union Natl Bk of Georgia	233.1	1.8		14	TD Bank NA	72.3	1.7	
15	Bank of Tokyo	253.0	2.7		15	Barclays Bank PLC	224.6	1.7		15	The Bank of New York Mellon	64.2	1.5	
16	Credit Suisse	187.6	2.0		16	PNC Bank NA	208.3	1.6		16	US Bank	60.3	1.4	
17	Toronto-Dominion Bk & Tr Co.	165.9	1.7		17	US Bank	202.2	1.6		17	Union Bank of Switzerland	55.0	1.3	
18	The Sanwa Bank, Limited	164.1	1.7		18	HypoVereinsbank Luxembourg SA	200.0	1.5		18	Bank of Scotland	53.3	1.2	
19	Barclays Bank PLC	152.1	1.6		19	AmSouth Bank NA	199.0	1.5		19	Bank of Tokyo-Mitsubishi UFJ	45.0	1.1	
20	The Tokai Bank, Ltd.	134.9	1.4		20	Branch Banking & Trust Co	191.1	1.5		20	Federal Home Loan Mtg Corp	32.1	.8	
Industry Total		9,510.5	100.0		Industry Total		12,946.0	100.0		Industry Total		4,302.8	100.0	

Source: Thomson Financial and company websites; True Economics Rankings. As of August 25, 2011

Select Credit Bank Ratings and Trading Relationships

Long-Term Credit Support and Counterparty Ratings and Trading Values ⁽¹⁾			
Bank	Moody's	S&P	Fitch
Wells Fargo Bank	Aa2	AA	AA-
J.P. Morgan	Aa1	AA-	AA-
U.S. Bank	Aa2	AA-	AA-
Northern Trust	Aa3	AA	AA-
Bank of America	Aa3	A+	A+
BB&T	A1	A	A+
Citibank	A1	A+	A+
PNC Bank	A2	A+	A+
Goldman Sachs	A1	A	A+
Compass	A3	A	A+
Keybank	A3	A-	A-
Morgan Stanley	A2	A	A
Fifth Third	Baa1	BBB	A-
SunTrust	Baa1	BBB	BBB+
Regions	Baa1	BBB-	BBB-

Source: Bloomberg as of 8/15/2011

LOC/Liquidity Support Volume

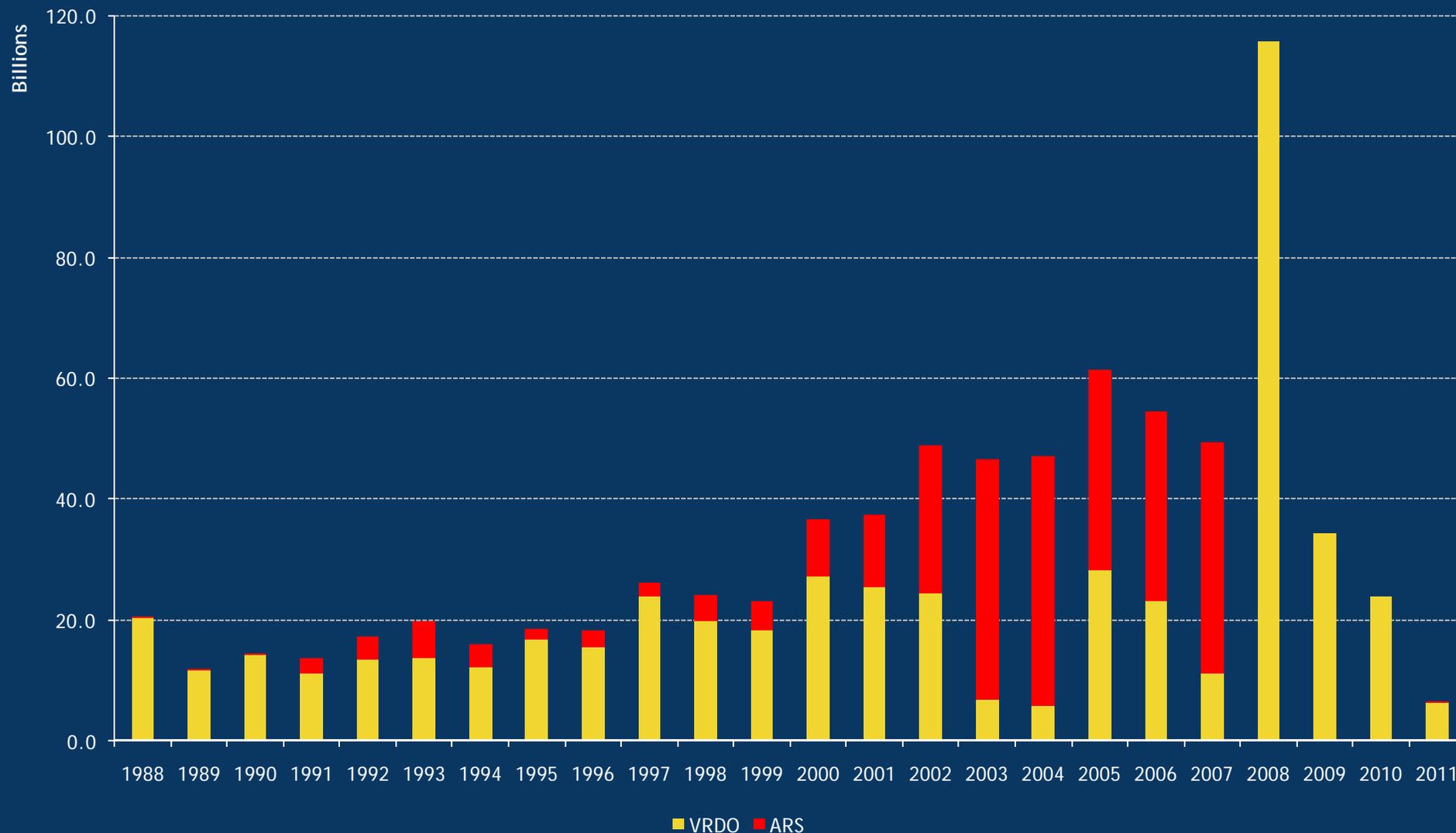
Bank Exposures LOC/Liquidity	
> \$30B	BofA JPM
\$29B - \$20B	Wells Fargo Citibank
\$19B - \$10B	Dexia US Bank
\$9B - \$6B	Barclays BB&T Helaba PNC State Street
< \$5B	Allied Irish BBVA BLB BMA/Harris BNP BoNY Depfa KBC LBBW Lloyds RBC Regions Scotia Soc Gen Sumitomo SunTrust Union Bank

General Trends in Credit Enhancement

- Bond Insurance Option, Going, Going...
- Variable rate issuance declining and current volume dominated by replacement facilities
 - Banks retaining capacity for existing clients
 - Pricing remains competitive
 - Greater attention to documentation
 - Top three banks accounted for 54% of volume⁽¹⁾
 - Number of banks providing enhancement has declined since 2008, with little activity from foreign banks

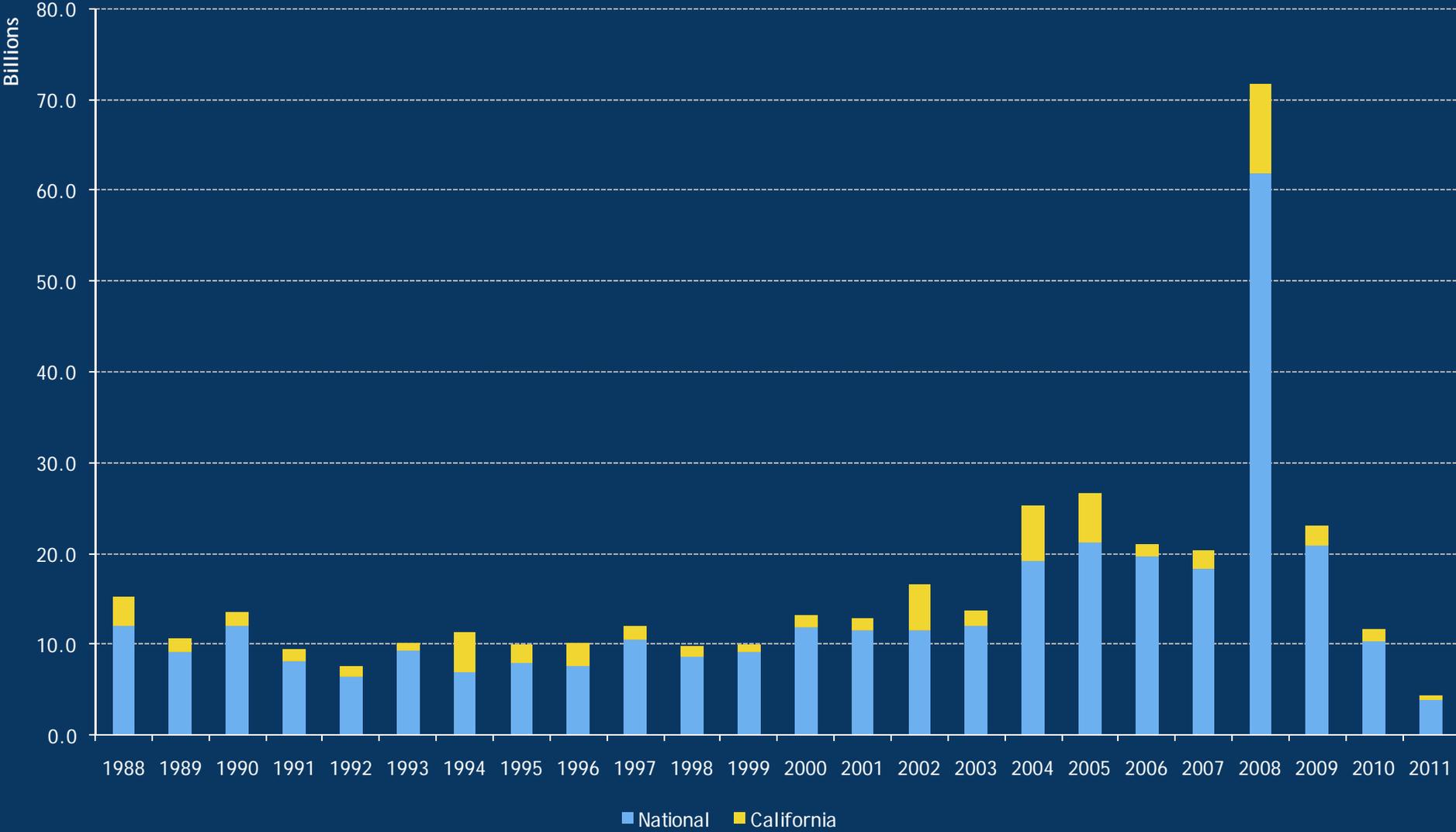
Variable rate growth and dramatic changes

Historical Variable Rate Issuance



Changes in the Letter of Credit Volume

Historical LOC Issuance



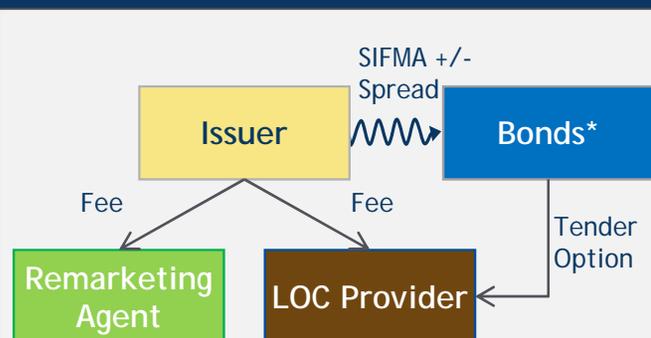
Source: Thomson Financial. As of August 25, 2011

But the Stats are misleading...

- While the decline in variable rate and LOC issuance is genuine, it is also vastly overstated
- Significant movement to on-balance sheet enhancement alternatives: Direct Purchase by Banks
- Different banks are doing the product differently and the generic term really describes multiple products
- Volume significant
 - Some banks buying as securities, some as loans
 - Some show up in market data, much does not

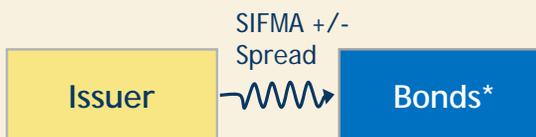
Three Basic Models

VRDO Structure



* Bonds purchased by Investors

Index Floater Structure



* Bonds purchased by Investors

Wells Fargo Direct Purchase Structure



** Bonds purchased by WFS

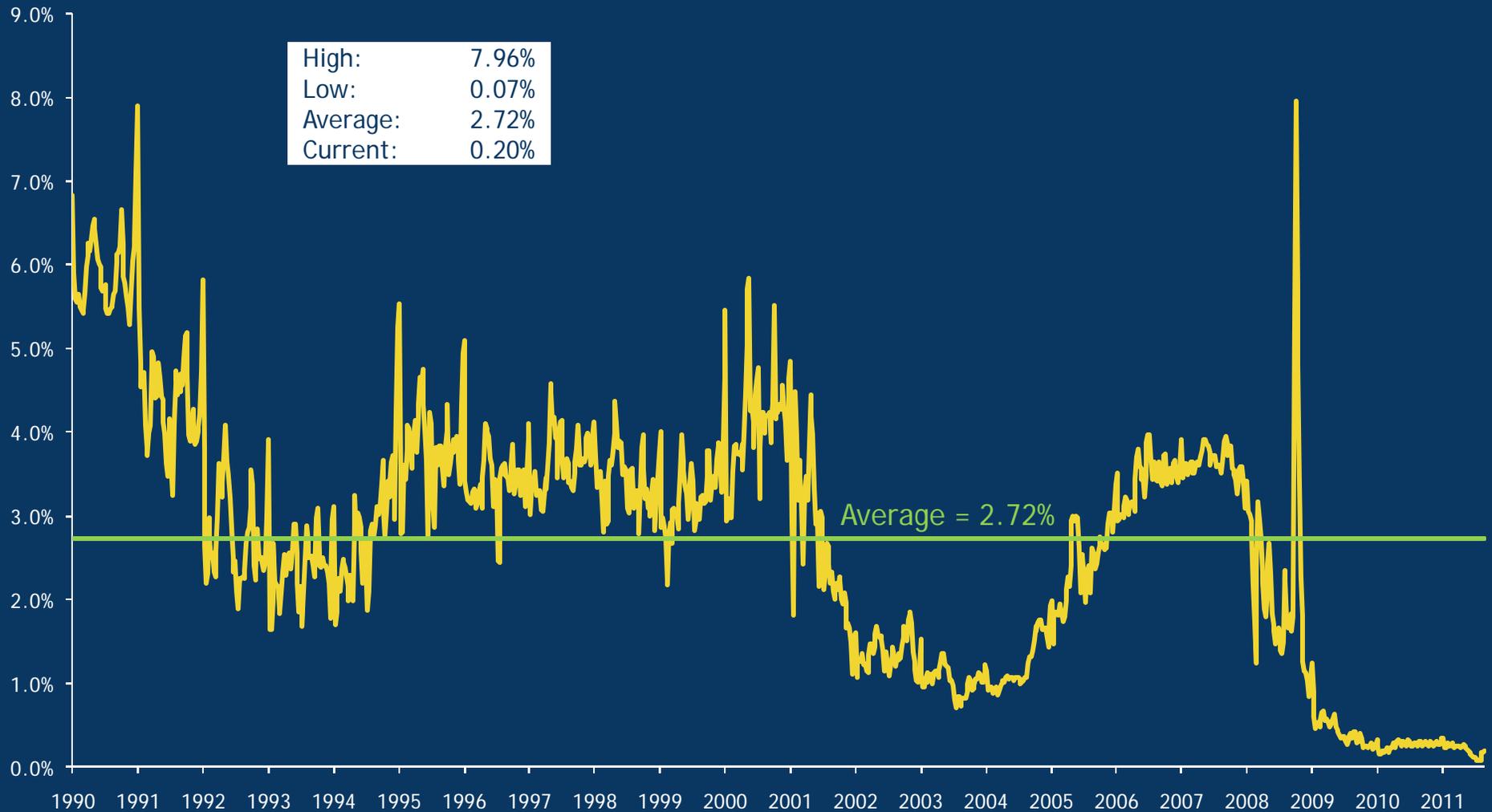
Comparison of Risks

		VRDO	Index Floater	Wells Fargo Direct Purchase
Bank Risk	Spread over index increases due to investor discomfort with bank credit	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Spread over index is locked in for the entire Index Floater period
Remarketing	Spread over index is a function of a remarketing agent's capital strength and performance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> Spread over index is locked in for the entire Index Floater period
Systemic Put	Investors refuse to hold VRDOs or Index Notes as an asset class	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/> Bank does not have a right to tender the Index Floater to the borrower prior to the expiration of the Index Floater Period‡
Bank Renewal	Facility is not renewed or pricing increases dramatically upon renewal	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> If bank does not negotiate a new Index Floater term or will not write an LOC upon expiration, issuer faces term out
Interest Rate	Variable rates may rise unexpectedly resulting in higher debt service	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> Rates are variable and may rise resulting in increased costs

‡ Under certain credit events, the Bank may accelerate repayment of the securities

Variable rates are extraordinarily low

Historical SIFMA

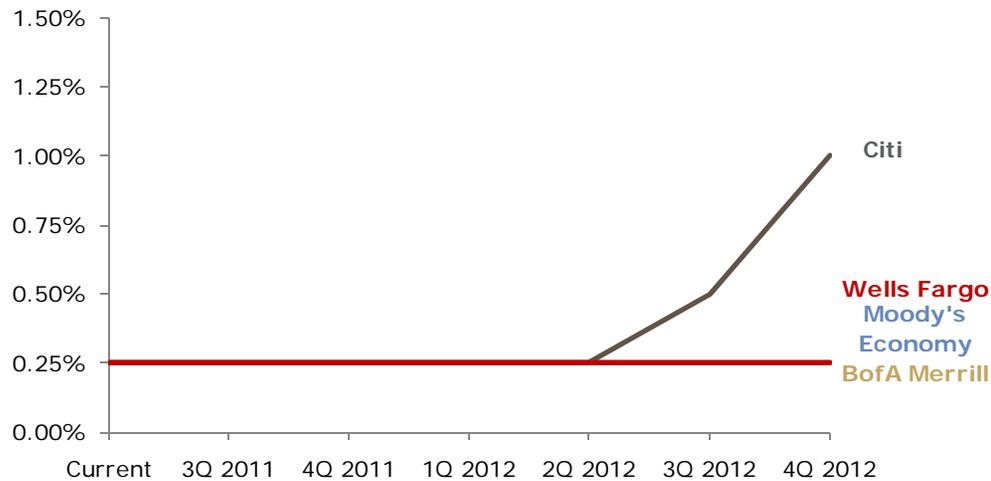


■ Period of extraordinarily low rates

Outlook for Variable rates looks to remain low

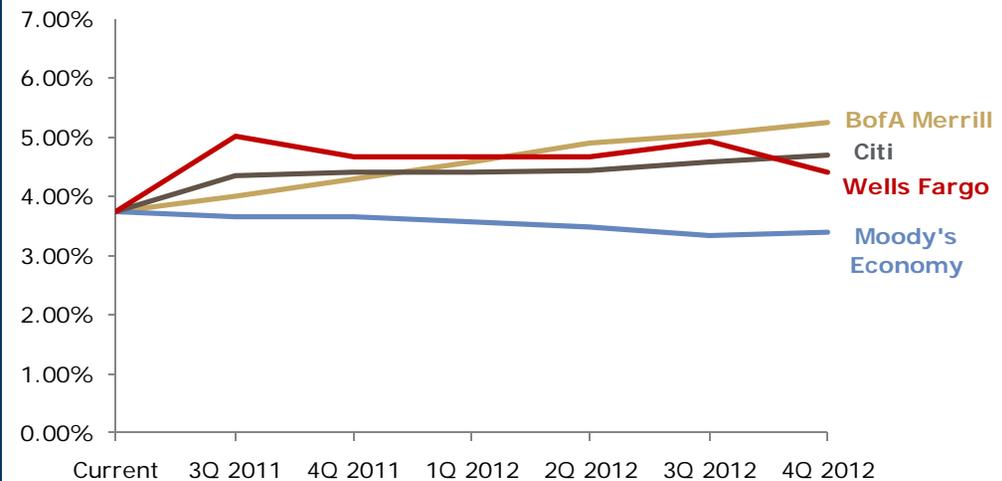
Economist Outlook on the Federal Funds
(as of August 12, 2011)

(as of August 12, 2011)



Economist Outlook on the 30-Yr US Treasury
(as of August 12, 2011)

(as of August 12, 2011)



- Unique clarity from the Fed's recent outlook for rates
- Rates are expected to remain low through 2013

Future Issues for Variable Rate Financing and Credit

- Bank ratings and balance sheets
- Shifting business models
- Evolution of new products
 - DP is continuing to evolve in response to competitive pressures and investor demand
- On balance sheet alternatives
- Term / Renewal
- Cost
- Basel III
- Interest rates



Questions and Follow up



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